

SECRET

# DRAFT WORKING PAPER

## Chapter Four

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CENTRAL INTELLIGENCE AGENCY  
SOURCE METHOD EXEMPTION 3B2B  
NAZI WAR CRIMES DISCLOSURE ACT  
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### The RSHA Financial Operation (U)

In November 2000, CBS Television broadcast its efforts to locate hidden Nazi treasures in the deep, dark waters of Lake Toplitz in the *Totes Gebirge* (Range of the Dead) mountains of the *Salzkammergut* region in western Austria.<sup>1</sup> In one of the last desperate acts of the Nazis in World War II, the SS dumped crate loads of money into Toplitzsee, as it is known in German. The money sat undisturbed at the bottom of the lake, measured in some parts at over 300 feet.<sup>2</sup> (U)

CBS, in conjunction with the World Jewish Congress and the Simon Wiesenthal Research Center in Los Angeles, hired Oceaneering Technologies, an underwater salvage company that had discovered the *Titanic* as well as conducting several other headline

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<sup>1</sup>Portions of this chapter initially appeared in Kevin C. Ruffner, "Shifting from Wartime to Peacetime Intelligence Operations: On the Trail of Nazi Counterfeiters," (S), in *Studies in Intelligence* (Vol. 46, No. 2, 2002), pp. 41-53. (S)

<sup>2</sup>For information on the Toplitzsee expedition in 2000, see CBS 60 Minutes II, "Hitler's Lake," prod. by Bill Owens, 21 November 2000. See also Associated Press, "American Salvage Crew Ends Search of Austrian Lake," 21 November 2000; Reuters, "'Hitler's Lake' Yields Counterfeit Currency," 20 November 2000; Associated Press, "American Team Begins Mapping Austrian Lake in Search of Nazi Relics," 10 June 2000; Emmanuel Serot, "Underwater Search for Nazi Relics in Austrian Lake," Agence France Presse, 7 June 2000; Julia Ferguson, "Divers Start Hunt for Nazi Loot in Austrian Lake," Reuters, 5 June 2000; Nick Fielding and Shraga Elam, "Titanic Team to Search Lake for Nazi Treasure," *Sunday Times* (London), 4 June 2000; Agence France Presse, "Search for Nazi Documents in Austrian Lake to Start Monday," 4 June 2000; and Julia Ferguson, "Is Austrian Lake a Treasure Trove of Nazi Plunder?," Reuters, 1 June 2000. See also Robert Buchacher and Herbert Lackner, "Das Raubgold der 'Endloser,'" *Profil* 27 (2 December 1996), pp. 56-62 and Walter Mayr, "Mehr als Fische und Falschgeld," *Der Spiegel* (17 January 2000), pp. 140-141. (U)

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expeditions, including the recovery of TWA Flight 800 in 1997. Going far beyond earlier searches of the lake by *Stern*, a German magazine, in 1959 and by the Austrian Government in 1963, CBS wanted to use modern technology to locate the Nazi treasure in Toplitzsee, whose legend had grown over the decades as the "garbage can of the Third Reich."<sup>3</sup> Some felt that the lake contained not only German money and documents, but also gold from the Vatican, and the looted panels of the Russian Imperial Amber Chamber. (U)

For a month in the summer of 2000, Oceaneering mapped the entire lake and then used a sophisticated one-man submarine to scour Toplitzsee's freezing dark bottom. The lake, which has no oxygen below 65 feet, "preserves everything" that falls into the water.<sup>4</sup> Finding Nazi relics, however, would be another matter. Even with modern equipment, the salvage crew faced numerous challenges, ranging from bad weather in the Alps to a lake floor covered by thousands of trees washed into the water over the centuries (the preserved logs are stacked up to heights of 60 feet at the bottom of the lake). As Bill Owen, Oceaneering's dive team leader, admitted, "we have a 50-50 chance of finding what we're looking for."<sup>5</sup> (U)

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<sup>3</sup>As quoted in Fielding and Elam, "Titanic Team to Search Lake for Nazi Treasure," *Sunday Times* (London), 4 June 2000. For information on the 1959 expedition, see "Himmler Papers in Lake," *The Times* (London), 11 August 1959, p. 6; "SS Secrets in Files Raised from Lake," *The Times* (London), 12 August 1959, p. 6; "9M. Pounds 'Bank Notes' Go Up in Flames," *The Times* (London), 19 November 1959, p. 10. (U)

<sup>4</sup>Serot, "Underwater Search for Nazi Relics in Austrian Lake," Reuters, 7 June 2000. (U)

<sup>5</sup>Fielding and Elam, "Titanic Team to Search Lake for Nazi Treasure," *Sunday Times* (London), 4 June 2000. (U)

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Only toward the end of the search period did Oceaneering detect the remnants of wooden crates, which turned out to contain counterfeit British pounds and American dollars. Rabbi Marvin Hier of the Simon Wiesenthal Research Center declared that the results justified the expense of the undertaking even though the anticipated treasures did not emerge from the Topplitzsee. "Had this counterfeiting operation [been] fully organized in 1939 and early 1940," the Holocaust scholar commented, "results of World War II may have been quite different."<sup>6</sup> (U)

In the decades after the war, the search for treasures stolen by the Nazis during World War II has taken both fictional and real-life characteristics.<sup>7</sup> How the Germans obtained their wealth from individual victims and conquered nations and sought to hide it from the Allies is one of the unsolved mysteries of World War II.<sup>8</sup> (U)

### Hitler's *Gotterdammerung* (U)

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<sup>6</sup>Reuters, "'Hitler's Lake' Yields Counterfeit Currency," 20 November 2000. (U)

<sup>7</sup>For a fictional look at hidden Nazi wealth and its impact over twenty years after the war, see Helen MacInnes, *The Salzburg Connection* (New York: Harcourt, Brace and World, 1968). Other recent examples of elaborate efforts to recover hidden Nazi wealth include recovery attempts in Greece. See "Rush is on for Nazi Gold in Greek Sea," *New York Times*, 31 July 2000, p. A4; Agence France-Presse, "Search for Nazi Loot off Greece is Unsuccessful," *New York Times*, 16 August 2000, p. A3. (U)

<sup>8</sup>The looting of European art from individual owners, dealers, and museums is one such example. For further information, see Craig Hugh Smyth, *Repatriation of Art from the Collecting Point in Munich after World War II* (Maarsen: Gary Schwartz, 1988) and Lynn H. Nicholas, *The Rape of Europa: The Fate of Europe's Treasures in the Third Reich and the Second World War* (New York: Alfred A. Knopf, 1994). The recovery of Nazi monetary and other wealth is found in Greg Bradsher, "Nazi Gold: The Merkers Mine Treasure," *Prologue: Quarterly of the National Archives* 31 (Spring 1999), pp. 7-21. (U)

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US intelligence was first drawn to Germany's counterfeiting operations as it ascertained Nazi plans to conduct a final battle, or *Gotterdammerung*, in the Alpine regions of Bavaria and Austria. In September 1944, Allen Dulles, chief of the OSS mission in Bern, crossed the newly opened border from Switzerland into France. Meeting with then Brig. Gen. William J. Donovan, Director of Strategic Services, in Lyons, the two intelligence officers flew to London and then to the United States. While in New York, Dulles summarized his views of the future of postwar Europe, in particular relations with the Soviet Union and the American role in defeated Germany.<sup>9</sup> (U)

Dulles warned his superior "upon the German collapse, hundreds of thousands of Nazis and SS will attempt to hide themselves in the German community. There are various conflicting stories as to the extent to which they are already preparing an underground movement," Dulles admitted. "In any event, this is a danger which is sufficiently real to justify the most careful following and we should have in Germany competent secret police and CE [counterespionage] forces to attempt to break this up at its inception." Dulles also discussed the "credible but not confirmed" reports of last-ditch efforts by the Nazis to fortify the mountainous regions of southern Germany and Austria.<sup>10</sup> (U)

Within six months after Dulles gave his appraisal of German postwar resistance measures, Allied concern about a Nazi stronghold in the Alps had mounted

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<sup>9</sup>Neal H. Petersen, ed., *From Hitler's Doorstep: The Wartime Intelligence Reports of Allen Dulles, 1942-1945* (University Park: Pennsylvania State University Press, 1969), pp. 383-388. (U)

<sup>10</sup>*Ibid.* (U)

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appreciably.<sup>11</sup> Rumors of an *Alpenfestung* or a National Redoubt in the Alps impacted American and British strategy at the end of the war and had long-term political ramifications.<sup>12</sup> The surprise German counteroffensive in the Ardennes in December 1944 foreshadowed the fury that the enemy could unleash. In mid-January 1945, Dulles told Washington that the "idea of a defense in a mountain fortress is in line with the Wagnerian complex of the whole National Socialist movement and the fanaticism of the Nazi youth. Hitler and his small band of brigands," the OSS station chief noted, "who started in the beer-hall in Munich, may find their end not far away in the Bavarian Alps, after having laid most of Europe in ruins."<sup>13</sup> (U)

Even as German forces melted away as Allies armies raced across the shell of the Thousand Year Reich during the spring of 1945, Gen. Dwight D. Eisenhower noted that "if the German was permitted to establish the Redoubt, he might possibly force us to engage in a long, drawn-on guerrilla type of warfare, or a costly siege. Thus," the Allied Supreme Commander wrote, "he could keep alive his desperate hope that through disagreement among the Allies, he might yet be able to secure terms more favorable than those of unconditional surrender."<sup>14</sup> (U)

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<sup>11</sup>For a history of the end of the war in Europe, see Charles B. MacDonald, *The Last Offensive* (Washington, DC: US Army Center of Military History, 1993, rep. 1973 ed.). (U)

<sup>12</sup>For a review of the Allied knowledge about German measures to continue the war, see Rodney G. Minott, *The Fortress That Never Was: The Myth of Hitler's Bavarian Stronghold* (New York: Holt, Rinehart and Winston, 1964). (U)

<sup>13</sup>Petersen, p. 430. Gen. Donovan's views in February 1945 as to the existence of a National Redoubt are found in Petersen, pp. 447-448. (U)

<sup>14</sup>Joseph E. Persico, *Piercing the Reich: The Penetration of Nazi Germany by American Secret Agents during World War II* (New York: Viking Press, 1979), p. 11. (U)

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While the evacuation of high-ranking German officials and their offices from Berlin to southern Germany seemed to presage the enemy's plans to continue the struggle, Allen Dulles grew increasingly dubious of German plans to defend the Alpine regions.<sup>15</sup> The potential threat of the National Redoubt, however, weighed heavily on Allied leaders. In one of his most controversial actions of the war, Gen. Eisenhower decided not to assault Berlin, the Nazi capital, but instead ordered American and British forces to clear the northern and southern flanks.<sup>16</sup> The role that Allied intelligence played in changing the course of the war in these last months still intrigues military and intelligence historians.<sup>17</sup> (U)

### *Sonderkommando Schwendt* (U)

As the Allied noose tightened around the Third Reich, OSS gleaned pieces of information about an intricate plot by the Germans to undermine the American and British currencies. In March 1945, OSS in Bern learned that the former chauffeur of the Hungarian ambassador to Switzerland had met a "Herr Schwendt" as he passed through Merano in northern Italy. According to the driver named Bela Tar, the mysterious man (whom Tar called Fritz Wendig) proposed, that on his return to Switzerland, the

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<sup>15</sup>An example of OSS's increasing reluctance to accept the idea of a last-ditch German struggle in the Alps can be found in OSS/X-2, German Section, "Memorandum of Nazi Resistance Plans," 10 March 1945, XX-5674, (S), in Walter F. Schellenberg,  , DO Records. (S)

<sup>16</sup>Cornelius Ryan, *The Last Battle* (New York: Simon and Schuster, 1966). (U)

<sup>17</sup>Timothy Naftali, "Creating the Myth of the Alpenfestung: Allied Intelligence and the Collapse of the Nazi Police-State," *Contemporary Austrian Studies* 5 (1997), pp. 203-246. (U)

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Hungarian get a job in the American or British legations and provide information to the Germans. At the same time, Tar would be furnished with dollars and pounds to sell on the Swiss black market.<sup>18</sup> (S)

After crossing the Swiss border, Tar instead surrendered to the authorities and provided OSS with his information. He reported that "Herr Schwendt" lived at Schloss Labers, on the outskirts of Meran, which had "a radio station, extensive telephone installations and source happened to see by chance where cases full of brand new Italian Lire where [sic] being unpacked." Tar also gave the Americans a sketch of the Schloss, which, in turn, OSS reported to Paris, Caserta, and Washington as a "bombing target."<sup>19</sup> (S)

The following month, a German deserter told OSS in Switzerland that Heinrich Himmler, head of the SS, had formed "*Sonderkommando Schwendt*" as an independent unit "to purchase abroad a variety of objects including gold, diamonds, securities, as well as certain raw materials and finished products such as silk stockings, expensive perfumery, etc." The source pinpointed offices in Trieste, Meran, and Milan with the goods stored in a military barracks in Merano and in nearby caves.<sup>20</sup> (S)

In May 1945, two weeks after VE-Day, OSS in Switzerland intercepted a letter from what appeared to be a German civilian, who had been involved in obtaining the

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<sup>18</sup>"Italy - Bombing Target (Sketch Attached)," 16 March 1945, B-2037, [no classification stated], in Fritz Schwend, ☐ DO Records. (S)

<sup>19</sup>Ibid. Further information about Bela Tar, including his affairs in Switzerland, is found in a summary report in Hans Max Clemons, ☐ DO Records. (S)

<sup>20</sup>"Sonder-Kommando Schwendt," 12 April 1945, B-2460, [no classification stated], in Schwend, ☐ DO Records. (S)

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right paper stock for the printing of British currency. In the letter, the individual (who was not known to OSS) provided an account of the beginnings of the operation, the names of the firms involved, and the names of several SS officers who supervised the production. The writer had visited the production facility and had met the Jewish inmates.<sup>21</sup> (U)

### The McNally Investigation (U)

As the Americans moved into northern Italy and Austria, Operation BERNHARD quickly unraveled.<sup>22</sup> Immediately after the war, the United States undertook two separate investigations of Operation BERNHARD. The first investigation, led by an

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<sup>21</sup>Germany: Economic. "Manufacture of English Pounds Notes," Date of Report: 20 June 1945, Information: 26 May 1945, Date of Distribution: 10 July 1945, Report No. B-2832, in Col. William G. Brey, Chief, Foreign Exchange Depository, Finance Division, Office of Military Government (US), to Director, Finance Division, OMGUS, 3 October 1946, enclosing untitled, undated report by Maj. George J. McNally, Chief Counterfeit Detection Section, with attachments, in Record Group 260, Records of US Occupation Headquarters, World War II, Records of the Office of Military Government (US), Office of Finance Division and Finance Adviser, Central Files of Foreign Exchange Depository Group 1945-50, Box 451, File 950.31, Currency - Counterfeit Investigations, NARA (hereafter cited as McNally Report, RG 260, OMGUS Records, NARA). (U)

<sup>22</sup>A number of books have been written on the German counterfeiting operation. For example, see Adolf Burger, *Unternehmen BERNHARD: Die Geldfalscherwerkstatt im KZ Sachsenhausen* (Berlin: Edition Heinrich, 1992). Burger was one of the Jewish inmates forced to work for the Germans. See also Anthony Pirie, *Operation BERNHARD* (New York: William Morrow and Company, 1962). While Pirie provides an overall description of Germany's efforts to undermine British and American currency, the book is misleading in some areas. For example, Wilhelm Hoettl's role in the affair is obscured, and he is referred to as "Dr. Willi Holten." Ladislav Farago's *Aftermath: Martin Bormann and the Fourth Reich* (New York: Simon and Schuster, 1974) should also be read with some caution. Other sources include Magnus Linklater, Isabel Hilton, and Neal Ascherson, *The Nazi Legacy: Klaus Barbie and the International Fascist Connection* (New York: Holt, Rinehart and Winston, 1985) and Richard Wires, *The Cicero Spy Affair: German Access to British Secrets in World War II* (Westport: Praeger, 1999), pp. 85-96. (U)



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Army captain and a former Secret Service officer, sought to discover how the Germans had compromised the security of the American monetary system. At the same time, OSS undertook a separate investigation to locate members of Operation BERNHARD who, in turn, could pinpoint the hidden wealth before it could finance underground Nazi resistance efforts. (U)

In early May, Capt. George J. McNally, Jr., a Signal Corps officer assigned to the Currency Section of the G-5 Division's Financial Branch at Supreme Headquarters Allied Expeditionary Force (SHAEF) in newly captured Frankfurt, received word that American troops in Bavaria had located a factory stocked with boxes of counterfeit British pounds. At the same time, he learned that American soldiers and Austrian civilians were busily fishing millions of pounds found floating in the Enns River. Meanwhile, a German army captain had surrendered a truck with 23 boxes of English money, valued at 21 million pounds sterling, in Austria. A Secret Service agent before the war, McNally specialized in detecting counterfeit money, and he soon found his peacetime skills in demand in occupied Europe. For the next eight months, McNally would trace the entangled webs of Operation BERNHARD that extended into Austria, Czechoslovakia, Germany, and Luxembourg.<sup>23</sup> (U)

Until McNally took charge in late May, the British and Americans had not coordinated their investigation into German currency operations. Reports came from

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<sup>23</sup>George J. McNally with Frederic Sondern, "The Nazi Counterfeit Plot," in *Secrets and Spies: Behind-the-Scenes Stories of World War II* (Pleasantville: The Reader's Digest Association, 1964), pp. 507-514. Originally published as "The Great Nazi Counterfeit Plot," in the July 1952 issue of *Reader's Digest*. (U)

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scattered army units throughout Germany and Austria, many linked to rumors of sightings of German Werewolves, the Nazi underground resistance movement. From intelligence sources in the Middle East, the British already knew that the Germans had been busily undermining their currency. At a meeting in early June 1945 with British officials in Frankfurt, McNally met P.J. Reeves, the manager of the St. Luke's Printing Works in London (the British equivalent of the US Bureau of Printing and Engraving). Reeves was visibly perturbed when he saw the amount of British currency that McNally had recovered in Austria. "He began going from box to box, riffling the notes through his fingers. Finally he stopped and stared silently into space. Then for several seconds," McNally later recalled, "he cursed, slowly and methodically in a cultured English voice, but with vehemence. 'Sorry,' he said at last. 'But the people who made this stuff have cost us so much.'"<sup>24</sup> (U)

Capt. McNally, joined by Chief Inspector William Rudkin, Inspector Reginald Minter, and Detective Sgt. Frederick Chadbourn from Scotland Yard and Capt. S.G. Michel, a French army liaison officer attached to the Americans, soon concentrated their efforts on interviewing Germans involved with Operation BERNHARD and concentration camp inmates who produced the false money. Drawing on support from the Army's Counter Intelligence Corps (CIC), OSS, and the US Navy, McNally compiled

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<sup>24</sup>Indeed, the Bank of England had to recall all its notes and exchange them for new five pound notes. McNally, "The Nazi Counterfeit Plot," p. 507. (U)

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an extensive report by the fall of 1945. His report summarized the history of Operation BERNHARD and the known disposition of German false currency.<sup>25</sup> (U)

"While the exact date of inception is vague," McNally wrote, "it seems reasonable to suppose in the light of all evidence that the German Reich had a counterfeiting plan as early as 1939."<sup>26</sup> By 1942, McNally reported that Operation BERNHARD was in full swing with two barracks as living and work areas for Jewish prisoners at Sachsenhausen concentration camp near Berlin. Isolated from the main prison area by barbed wire fences, the SS, under *Sturmbannfuhrer* BERNHARD Kruger, oversaw the work of 140 Jewish inmates in such fields as printing, binding, photography, and engraving. The Nazis placed a prisoner as the head of each section under the overall charge of Oskar Stein (also known as Oskar Skala) as office manager and bookkeeper. In addition to sparing their lives, Kruger offered the prisoners better food and other privileges for their hard work. (U)

The Germans faced numerous technical difficulties to counterfeit British and American money. By mid-1943, the SS had contracted with the Hahnemuhle paper factory in Braunschweig in northern Germany to produce the special rag needed for British money. The Germans used ink produced by two companies in Berlin. Wartime

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<sup>25</sup>McNally Report, pp. 1-11, with attachments and addendum, RG 260, OMGUS Records, NARA. The report indicates that McNally had provided photographs, but none are located with the report at the National Archives. (U)

<sup>26</sup>McNally Report, p. 1, RG 260, OMGUS Records, NARA. Operation BERNHARD, known originally as Operation Andreas, actually got its start in 1939 when two SS officers, Alfred Naujocks and BERNHARD Kruger of the *Reichssicherheitshauptamt*, RSHA or the German Security Main Office, undertook to produce false British currency in addition to other false documents. For further background on Naujocks, see Gunter Peis, *The Man Who Started the War* (London: Odhams Press, 1960). (U)

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shortages, coupled with imperfections, limited the production of British currency. Oskar Stein estimated that only 10 percent of the fake money could be considered usable; yet the Germans reportedly produced some 134 million pounds in less than two years. Efforts to reproduce American currency proved less successful despite the work of Solly Smolianoff, a well-known forger whom Krieger added to his collection of skilled workers at Sachsenhausen.<sup>27</sup> (U)

In addition to American and British currency, the SS reproduced a wide array of civilian and military identity cards, passports, marriage and birth certificates, stamps, and other official documents from throughout the world. According to McNally, *Reichsfuhrer* Heinrich Himmler planned to use these forged documents and money for Nazi agents as well as to create havoc among the Allies. For example, Himmler wanted to drop the "expendable," or *Abwurf*, British pounds on the United Kingdom by airplane. These notes "were good enough to fool anyone but an expert. Therefore," McNally wrote, "if a large quantity was dumped and the English government declared them counterfeit, many would say the government was merely trying to avoid redeeming them and would hold them."<sup>28</sup> (U)

The rapid advance of the Soviet army into Germany in early 1945 necessitated the evacuation of the Jewish inmates from Sachsenhausen to Mauthausen, a concentration camp in Austria. In mid-April, the Germans again moved the prisoners and machinery to

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<sup>27</sup>For further details on Smolianoff, described as the "only criminal" involved in Operation BERNHARD, see Murray Teigh Bloom, *The Brotherhood of Money: The Secret World of Bank Note Printers* (Port Clinton: BNR Press, 1983) and Murray Teigh Bloom, *Money of Their Own: The Great Counterfeiters* (New York: Scribner, 1957). (U)

<sup>28</sup>McNally Report, p. 6, RG 260, OMGUS Records, NARA. (U)

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an unused brewery at Redl-Zipf where they hoped to start up production in an underground factory in the mountains. The Nazis had little time to resume production as the war came to a sudden end in Austria. By the last week of April, the Germans ordered the inmates to destroy as much of the machinery, money, and records as possible. The inmates, in turn, moved to Ebensee concentration camp where the US Army liberated the camp on 6 May, shortly before the SS planned to kill them. By the time that Capt. McNally launched his investigation, Operation BERNHARD's concentration camp workers had scattered throughout Europe. (U)

As the fronts collapsed, the SS scrambled to get its money out of Berlin to safety in the south. According to McNally's research, one truck left Redl-Zipf and made it as far as Pruggern, where it broke down. The money was dumped in the Enns River where the bills scattered for miles. Another truck left the same location and arrived in Bad Aussee, and the SS then put the money on a cart for the trip to Toplitzsee, where they dropped the cases into the lake. A convoy of trucks from Berlin brought more money to Taxenbach, where the Germans burned the trucks and their contents. Another truck ended up near Innsbruck, where the Counter Intelligence Corps found it and over two million British pounds. A German army officer surrendered yet another truck with 23 boxes full of bills of small British dominations totaling some 21 million pounds. McNally also tracked down other unconfirmed reports of sightings of the German money. (U)

Throughout the summer and fall of 1945, McNally and his British and French counterparts crisscrossed Europe to interview witnesses and interrogate German

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participants, including *Obersturmbannfuhrer* Josef Spacil, BERNHARD Kruger's commanding officer.<sup>29</sup> Capt. McNally also tried to raise the crates of money that the Germans had dumped in the Toplitzsee and Traunsee. A special US Navy team of divers flew from Le Havre, France, to Frankfurt and then drove to Austria. Despite the depths of the Toplitzsee, the Navy divers entered the shallower sections of the lake, but found nothing. The special team encountered a similar lack of luck in searching the area near Gmunden.<sup>30</sup> (U)

By early 1946, McNally had wrapped up his investigation and completed his report. "Thus," McNally commented, "in disorganization, flight and destruction, ended

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<sup>29</sup>Transcripts of interviews with former concentration camp inmates, including Adolf Burger and Oskar Stein in Czechoslovakia, are found in McNally Report, RG 260, OMGUS Records, NARA. The apprehension of Spacil by OSS is recounted in Capt. F.C. Grant, SCI Detachment, Seventh US Army, to Commanding Officer, SCI Detachment, Twelfth Army Group, "Weekly Report," 16 June 1945, LSX-002-616, in WASH-REG-INT-163, RG 226, OSS Records, Box 276, [no folder listed], NARA. Grant placed Spacil in the Seventh Army Interrogation Center for further questioning about Operation BERNHARD. Later that year, McNally took Spacil from the Military Intelligence Service Center's interrogation camp at Oberursel, near Frankfurt, to Austria to get a firsthand description of what transpired at the end of the war. McNally's interrogation of Spacil and Chief Inspector Rudkin's report on Spacil are both located in McNally Report, RG 260, OMGUS Records, NARA. The Americans continued to seek information from captured Germans about Operation BERNHARD even after the completion of McNally's investigation. For example, see "SAINT, London to SAINT, Washington, "U/Stuf Rudolf Guenther," 7 February 1946, XX-10723, enclosing Headquarters, US Forces European Theater (USFET), Military Intelligence Service Center (MISC), Counter Intelligence Preliminary Intelligence Report (CI-PIR) No. 96, "U/Stuf Guenther, Rudolf" 17 January 1946, in WASH-REG-INT-175, RG 226, OSS Records, Entry 109, Box 58, Folder 2, NARA. Guenther was Spacil's private accountant after July 1944 and knew about Germany's counterfeiting activities. CIC arrested him in Wurzburg, Germany, in June 1945 and sent him to Oberursel in late December. (U)

<sup>30</sup>Capt. McNally to Capt. W.A. New, US Naval Forces, Germany, "Recovery of Enemy Materials and Equipment from Inland Waters in Germany and Austria," 26 September 1945; Capt. New to Capt. McNally, "Enemy Materials and Equipment from Inland Waters in Germany and Austria, Recovery of," 11 September 1945; and J.H. McDonald, US Naval Ship Salvage Group, to Cdr. R.P. McDonald, 4 July 1945, in RG 260, OMGUS Records, Office of Finance Division and Finance Adviser, Central Files of Foreign Exchange Depository Group 1945-50, Box 451, File 950.31, Currency - Counterfeit 1945, NARA. (U)

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the most elaborate and far reaching scheme that an invading army ever devised for the wholesale counterfeiting of the money and credentials of other countries." The American military returned the counterfeit British currency to the Bank of England and closed the file on Operation BERNHARD. Nazi Germany's clandestine activity became a curious footnote in the annals of the war. Yet, the expertise gained by Operation BERNHARD's participants would soon be a valuable tool at the dawn of the Cold War. (U)

### **RSHA Financial Operation (U)**

At the same time as Capt. McNally learned of the Nazi fortunes in Bavaria and Austria, OSS was already on the trail of members of Operation BERNHARD. In mid-May, Lt. Alex Moore, an X-2 officer assigned to the Sixth Army Group's Special Counter Intelligence (SCI) detachment, took Karl Hermann Friedmann, a captured SS officer and member of Operation BERNHARD, to Rosenheim near Munich to pick up George Spitz, a 52-year old Austrian Jew.<sup>31</sup> Friedmann fingered Spitz, a prewar art

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<sup>31</sup>Born in Chicago in 1917, Alex Moore attended school in France and the United States and received his degree from Stanford University in 1937. He served in France and England with the American Red Cross during the early part of the war. Moore enlisted in the US Army in the United Kingdom in the fall of 1942. After completing OCS in 1943, he served with a military intelligence interrogation team in France and Germany until he transferred to OSS in January 1945. Assigned as X-2's Administrative Officer in Paris, Moore joined the SCI Detachment of the Sixth Army Group in mid-May 1945. Moore was reassigned to the United States in the summer of 1945 and subsequently released from military service. Moore later worked for the UNRRA in Czechoslovakia during 1946-1947 and then joined the Economic Cooperation Administration and later the Mutual Security Administration in Paris, where he came to the attention of CIA. Moore remained with the US Agency for International Development and served throughout the world until his retirement in 1969. He continues to live in Paris where he worked for a French consulting firm. See Alex Moore, [redacted] [redacted], DO Records. Material

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dealer who had lived in the United States as a youth, as a key operator in the distribution of the counterfeit funds. Spitz, in turn, admitted to Moore that he had worked for the Germans, but only under duress, and he soon provided extensive leads into the Nazi efforts to undermine the Western Allies monetary system.<sup>32</sup> (S)

Spitz recounted to Moore how he had escaped from the Nazis and then actually worked for them. Spitz had approached a half-Jew, Hans Oskar Markuse, in Munich and sought his help to obtain false documents in order to avoid arrest by the Nazis. For a price of 5000 Reichmarks, Spitz received a false passport from an SS *Obersturmfuhrer* Josef Dauser, who worked in the SD office in Munich, and his secretary, Frau Bertha von Ehrenstein. In 1943, Spitz claimed to have met a man named Wendig in Munich who, in turn, asked him to travel to Belgium to purchase gold, jewelry, and pictures. Spitz made six trips and exchanged some 600,000 marks worth of English pounds on these trips. Lt. Moore, the first OSS officer to work on this case, interrogated both Dauser and his secretary to confirm the accuracy of Spitz's account.<sup>33</sup> (S)

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from Moore's military service with OSS is found in Moore, [redacted], in WASH-HQ&HQ DET-PERS-13, in DO Records, [redacted], Box 23, CIA ARC. Additional material is also located in WASH-PPB-PERS-13, in DO Records, [redacted], Box 40, CIA ARC. Moore also privately published a memoir of his wartime service entitled *From Normandy to Aachen* in 1979. A copy of his memoirs and correspondence are found in the CIA History Staff files. (S)

<sup>32</sup>SCI Sixth Army Group, "Interrogation of Subject, George Spitz," 16 May 1945, (S); and SCI Sixth Army Group, "Sale of Foreign Currency by the RSHA," 17 May 1945, (S); and SCI, Sixth Army Group, "Agents Used by Lieutenant Moore, SCI 6 AG," 17 May 1945, (S), in George Spitz, [redacted], DO Records. (S)

<sup>33</sup>"Interrogation of Bertha von Ehrenstein," 25 May 1945; "Additional Statement of Mrs. Von Ehrenstein," [undated]; and "Memorandum on Schwend alias Wendig," 30 May 1945, [no classification listed], in Spitz, [redacted], DO Records. (S)

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By the end of the month, Moore had pinpointed Friedrich Schwend as Operation BERNHARD's mysterious paymaster and identified his various cover names, including Dr. Wendig and Fritz Klemp. Born in 1906 and a member of the Nazi party since 1932, Schwend (spelled also on occasion as Schwendt) lived a charmed life. A businessman who had settled in Abbazia, Italy, Schwend had married a wealthy German woman in 1929 whose aunt resided in Argentina. Drawing on his family ties, Schwend managed the aunt's business in Latin America, and he established numerous contacts throughout Europe and the Americas. In the 1930s, Schwend also established himself as an arms dealer and provided aircraft and other weapons to China. (U)

At the outbreak of the war, Schwend's activities drew the attention of the Gestapo, and the Italian was arrested as an Allied agent and was returned to Germany. Schwend's time in prison was short as he was soon released to become the leading salesman of Operation BERNHARD. From his headquarters at Schloss Labers, just outside of Meran in northern Italy, Schwend distributed money throughout Europe using numerous couriers. He was not a member of the SS, although he took the rank and identity of SS *Sturmbannfuhrer* Dr. Wendig, who had died in a partisan attack in Italy in 1944. Schwend's castle in Merano was guarded by a detail of Waffen SS soldiers and identified as *Sonderstab - Generalkommando III Germanisches Panzerkorps*, the Special Staff of the Headquarters of the Third German Armored Corps. (U)

Schwend retained one-third of the profits derived from the sale of the counterfeit money. Despite mass destruction, money was still to be made in war-torn Europe. Schwend and his underlings used the fake currency to purchase luxury items on the black

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market as well as to buy weapons from Yugoslav partisans anxious to make a buck from arms provided by the British and Americans. The Germans, in turn, then sold the Allied equipment to pro-Nazi groups in the Balkans. Money distributed by Schwend also went to pay German agents throughout Europe; Elyesa Bazna, the famous German agent in Turkey known as CICERO, was paid in false British currency produced by Operation BERNHARD. (U)

It was, however, not a job without risks. The German secret police, the Gestapo, was on the lookout for counterfeiters and black marketers and sometimes apprehended Schwend's men by accident. Rivalries among senior German SS officers, including *Reichsfuhrer* Heinrich Himmler, Reinhard Heydrich (first head of the RSHA), Heinz Jost (first head of RSHA *Amt VI* or foreign intelligence), Ernst Kaltenbrunner (Heydrich's successor as RSHA chief), Heinrich Mueller (head of *Amt IV*, the Gestapo), Otto Ohlendorf (head of RSHA *Amt III*), and Walter Schellenberg (Jost's successor in *Amt VI*), all hindered Operation BERNHARD to one degree or another. Mainstream German entities, such as the Foreign Ministry and Reichsbank, vehemently opposed any tinkering with the monetary systems, even those of the enemy. As it turned out, German use of counterfeit pounds destabilized the already fragile economies of several countries, Italy in particular. (U)

With the aid of Spitz, Dauser, and von Ehrenstein, Moore identified most of Schwend's collaborators, and he planned to apprehend the remaining members of



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
## DRAFT WORKING PAPER

Operation BERNHARD.<sup>34</sup> On 18 May, Lt. Moore took Spitz to Prien where they located a large collection of trunks and crates belonging to Schwend. Schwend, however, was nowhere to be found.<sup>35</sup> Spitz also helped Lt. Moore collar Heinrich Hoffmann, Hitler's personal photographer, and Loomis Taylor, the American "Lord Hee Haw." (S)

On 10 June, OSS reported that it had arrested Schwend and started its interrogation for further details about what it now referred to as the "RSHA Financial Operation."<sup>36</sup> The Americans initially held Schwend at the Seventh Army Interrogation Center in Ludwigsburg with hundreds of other German military officers and security suspects. The Center's Weekly Status Report for the period 16-23 June 1945 listed Schwend as being detained by the 307<sup>th</sup> CIC Detachment as a counterintelligence interest. Listed as a "mechanical engineer," the Army noted that Schwend "bought machinery and tools for factories." Whether the Army listed Schwend in this category out of ignorance or for other reasons is not known. Shortly afterward, OSS officers removed Schwend

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<sup>34</sup>Lt. Charles Michaelis to Commanding Officer, X-2/Germany, "Preliminary Statement of Agi Zelenay in Connection with RSHA Operations," 4 June 1945; Michaelis to Commanding Officer, X-2/Germany, "Continuation of the Statement by Agi Zelenay," 26 June 1945; and Michaelis to Commanding Officer, X-2/Germany, "RSHA Financial Operations," 5 June 1945, [no classifications listed], in Spitz,  , DO Records. (S)

<sup>35</sup>Moore to Commanding Officer, SCI, Sixth Army Group, "Financial Operations of RSHA Amt VI," 22 May 1945, [no classification listed], in Spitz,  , DO Records. (S)

<sup>36</sup>Early OSS reporting on Schwend is summarized on several note cards in his 201 file. Many of these documents, however, are not located in his personality file, which the CIA did not open until 1957. A good number of documents pertaining to the RSHA Financial Operation, Spitz, Schwend, and other members of Operation BERNHARD are located in the declassified OSS records at the National Archives. A copy of a report written by Schwend for OSS has not been located in either the classified or declassified files. Spitz's classified 201 file, on the other hand, is more complete and contains many early OSS reports on the RSHA Financial Operations. (S)

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from the Interrogation Center and placed him in Munich's Stadelheim prison where he remained for three weeks before he relented to speak to his captors.<sup>37</sup> (U)

In an effort to get Schwend to talk, OSS brought George Spitz to Stadelheim prison to meet with Schwend. Spitz, now a recruited American asset, had impressed Capt. Charles C. Michaelis, who had replaced Lt. Moore as his OSS case officer, as "reliable, trustworthy and intelligent. He is willing to cooperate and has already given useful information."<sup>38</sup> Michaelis, it will be recalled, had served as Nebel's case officer in France during the war, and he was now assigned to Munich. Still uncertain of the connections between Schwend and his agents, OSS stated that it "believed that Spitz is primarily responsible for the success of this mission." According to Michaelis, Spitz

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<sup>37</sup>Weekly Status Reports for the Seventh Army Interrogation Center commanded by Maj. Paul Kubala are found in Record Group 338, Records of United States Army Commands, 1942-, Records of the European Theater of Operations/US Forces European Theater, Records of the Seventh Army Interrogation Center, Box 74, Folder 2, NARA. The Seventh Army Interrogation Center, or SAIC, prepared Weekly Status Reports (WSR) and Daily Status Reports (DSR) providing a breakdown of the number of internees held at the Center and for what reasons. The WSR also provides a listing by name of all internees while the DSR carries only numbers of internees on hand. The DSR did, however, carry the names of those individuals admitted to or released from the center. In Schwend's case, he was listed on Weekly Status Report Number 1 for the period 16-23 June 1945, but his name is not found in WSR No. 2. Interestingly, his departure from SAIC is not found on the Daily Status Reports for that period. The Seventh Army Interrogation Center prepared hundreds of interrogation reports of different types from April until the Center's disbandment in October 1945. Schwend's name does not appear in the index of any of these reports. See Seventh Army Interrogation Center, Index of SAIC Reports (6 April 1945-2 October 1945) in Box 73. (U)

<sup>38</sup>Capt. Michaelis to Commanding Officer, X-2/Germany, "George Spitz," 25 June 1945, X-645, (S), in Spitz, [redacted], DO Records. For information about Spitz's use by OSS and that of other Operation BERNHARD personnel, see Capt. Michaelis to Commanding Officer, X-2/Germany, "Situation Report on Prospective Penetration Agents," 29 June 1945, LMX-002-629, (S), in DO Records, [redacted], Box 3, Folder 21, CIA ARC (a copy is also filed in Spitz, [redacted], DO Records). OSS headquarters in Germany approved Spitz's use on 12 July 1945. (S)

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

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“persuaded Schwend that his best chance would be to confess his activities with the RSHA and to cooperate with us.”<sup>39</sup> (S)

As an act of good faith, Schwend agreed to turn over to OSS all of his “hidden valuables.” Capt. Eric W. Timm, X-2’s chief in Munich, and Capt. Michaelis accompanied Spitz and Schwend to a remote location in Austria in July 1945 where Schwend uncovered 7139 pieces of French and Italian gold, which he had buried only days before the end of the war. Michaelis reported that Schwend estimated that the gold, which weighed over 100 pounds, had a value of \$200,000. The “money constituted a possible threat to Allied security as it could have been used to finance anti-Allied activities,” Capt. Michaelis stated.<sup>40</sup> (U)

With one successful mission under his belt, OSS began to use Schwend as a “bird dog” for other hidden assets. In late July, Timm and Michaelis took Schwend and Spitz to Meran in Italy to visit Schwend’s former headquarters. The Army’s Counter Intelligence Corps had already rounded up several of Schwend’s personnel, who had remained in Meran, including several purchasing agents and George Gyssling, a former German consul in Los Angeles and a friend and an associate of Schwend’s. Capt. Harry

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<sup>39</sup>Capt. Michaelis, SCI Detachment Munich to Commanding Officer, X-2/Germany, “RSHA Financial Operations,” 20 July 1945, LWX-50, in WASH-REG-INT-163, RG 226, OSS Records, Entry 108A, Box 287, [no folder listed], NARA. See also Capt. Timm to Chief, X-2/Germany, “RSHA Financial Operation,” 20 July 1945, with copies of receipts, and Capt. Timm, Capt. Michaelis, 1<sup>st</sup> Lt. Stewart French, and Mrs. Jane Burrell, Memorandum for the File, “RSHA Financial Transactions,” 19 July 1945, (S), in Spitz,  , DO Records. (S)

<sup>40</sup>Ibid. (S)

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Riback, the CIC commander in Merano "had no information on the exact missions of these men nor did they have a clear picture of the over-all RSHA operation."<sup>41</sup> (U)

After interrogating one of Schwend's staff still in Meran, OSS recovered nearly \$200,000 worth of gold, American currency, and diamond rings. Timm and Michaelis turned the treasures over to Capt. Riback who was "most appreciative of the information given to him by SCI."<sup>42</sup> Both Spitz and Schwend had clearly established themselves with OSS and, according to Capt. Michaelis, Schwend added to his laurels by writing a history of Operation BERNHARD.<sup>43</sup> (U)

### **FLUSH and TARBABY (U)**

After the summer of 1945, OSS changed the scope of its RSHA Financial Operation. While it still collected information on Nazi Germany's clandestine efforts to counterfeit money, OSS began to use both Schwend and Spitz as agents for information beyond the scope of their wartime activities. In the meantime, OSS collected additional information about Schwend, who had a somewhat shady reputation even within the SS. Because of his role as a senior SS intelligence officer in Italy and the Balkans, Wilhelm Hoettl had been in contact with Fritz Schwend. During an interrogation by American

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<sup>41</sup>Lt. Edward R. Weismiller, Chief, Operations, X-2/Germany to SAINT, Washington, "RSHA Financial Operations," 2 August 1945, LWX-61, enclosing Michaelis to Commanding Officer, X-2/Germany, "RSHA Financial Operation," 28 July 1945, in WASH-REG-INT-163, RG 226, OSS Records, Entry 108A, Box 287, [no folder listed], NARA. (U)

<sup>42</sup>Ibid. A copy of the receipt dated 26 July 1945 is found in Spitz, ☐ DO Records. (S)

<sup>43</sup>As explained above, Schwend's report has not been found. (S)

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officers, Hoettl admitted "Schwend is a highly gifted businessman with a good bit of adventurism in him who particularly enjoys to drive around in the middle of rebellious areas and to deal with the most roughest partisan leaders. In doing so," Hoettl recalled, "he was less concerned with the profit than with the adventure of the affair."<sup>44</sup> (S)

Walter Schellenberg's surrender in 1945, and his transfer to Great Britain for interrogation, offered the Allies a window into German operations from the highest vantage point. OSS in London relayed to Washington what it learned from the former head of RSHA *Amt VI* throughout the summer of 1945.<sup>45</sup> Schellenberg readily told his captors about the intrigues that riveted the intelligence and security organs and the Third Reich. He elaborated in great detail about German activities throughout the world and was especially helpful in filling in the gaps about Operation BERNHARD. (S)

Schellenberg grew incensed at the wide berth that Schwend enjoyed in disposing of the false British currency. He decried the entire affair and blamed Schwend's success on RSHA chief Kaltenbrunner and corrupt SS officers, including Wilhelm Hoettl. The chief of *Amt VI* claimed that he did not even know Schwend's real name and only recognized him by his pseudonym of Wendig. In Schellenberg's opinion, Schwend was "one of the greatest crooks and imposters." By marketing his false money in territories

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<sup>44</sup>Undated, unsigned German-language report and rough English translation pertaining to Schwend. "Engineer Frederico Schwend" appears to be an excerpt of a longer interrogation of Wilhelm Hoettl. The report, classified Secret in the English version, is located in Schwend, 2, DO Records. (S)

<sup>45</sup>SAINT, London to SAINT, Washington, "Schellenberg Interrogation," 11 July 1945, (S), in Schellenberg, 2, DO Records. (S)

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controlled by the Germans, Schellenberg told his captors, the Reichsbank itself ended up buying the counterfeit currency.<sup>46</sup> (S)

Despite reservations about Schwend's reliability, he became one of X-2's new stable of agents in the fall of 1945. Schwend, in turn, recruited other Operation BERNHARD associates, including George Srb, a Czech, and Guenther Wischmann, his "salesman" in Slovenia, as subsources.<sup>47</sup> Capt. Michaelis had obtained Wischmann's release from prison after his arrest by the US Army in June 1945 when the British claimed that he had worked for them.<sup>48</sup> (S)

Following the departure of both Michaelis and Timm in the fall, Holtsman used Schwend to obtain a variety of reports on personalities who "might be used by the American intelligence in some way."<sup>49</sup> Additionally, Schwend gave the Americans details on the organization and structure of the Czech intelligence service and the use of

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<sup>46</sup>SAINT, London to SAINT, Washington, "Interrogation Report on Schellenberg, 27 June-12 July 1945," 2 November 1945, XX-9667, (S), enclosing a copy of the British interrogation report. Schellenberg, [ ] DO Records. (S)

<sup>47</sup>For a description of Wischmann, see Lt. Michaelis to Commanding Officer, X-2/Germany, "Preliminary Statement of Agi Zelenay in Connection with RSHA Operations," 4 June 1945; Michaelis to Commanding Officer, X-2/Germany, "Continuation of the Statement by Agi Zelenay," 26 June 1945, in Spitz, [ ] DO Records. (S)

<sup>48</sup>Security Control (the successor to X-2 in the new Office of Special Operations or OSO) in Munich eventually dropped Srb, known as CAMEL, as a source because of his black market activities and denunciations as a German collaborator by the Czech Government. Wischmann, also a subsource of Schwend's, traveled throughout Germany and Austria, but Holtsman did not use him as a "full-time agent" because of suspicions about his dealings on the black market. For further details on Wischmann, see various reports in Guenther Wischmann, [ ] DO Records. (S)

<sup>49</sup>Quote found in AB-43 [Holtsman], "Dr. Robert Scherkamp, Munich, Fuchsstr. 5," 30 August 1946, MSC-332, LWX-002-916a, (S), in Schwend, [ ] DO Records. Examples of other personality reporting are found in Schwend's personality file. (S)

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Jewish refugees by the Soviets.<sup>50</sup> Holtsman grew impressed with Schwend's work in Munich and commented, "his knowledge of personalities and underground groups in Italy, Yugoslavia, and in Germany is very wide."<sup>51</sup> Perhaps reflective of his ability to get information, X-2 provided Schwend with the codename of FLUSH. (S)

George Spitz, in the meantime, provided information to both Schwend and Holtsman as a X-2 source known as TARBABY. Capt. Timm had first used Spitz in a variety of ways, although he was not generally tasked as a regular agent. In late October, X-2's chief observed, "TARBABY will prepare and submit regular semi-monthly reports on financial and economic matters, as well as other items of interest which he can obtain." Timm felt that Spitz had "an encyclopedic knowledge of all figures of any importance in industry and economics throughout Europe."<sup>52</sup> In this capacity, Spitz gleaned tidbits on the German Red Cross and the Bavarian Separatist Movement in

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<sup>50</sup>Reporting on the Czech services is found in SCI/Munich Report No. 135, "OBZ (Obvodove Bezpecnosti Zpravodajstvi)," 7 June 1946, MGH-H-28, (S); SCI/Munich Report No. 159, "OBZ Headquarters, Washington Street, Prague," 18 June 1946, (S); AB-43 [Holtsman], Munich, "OBZ headquarters at Prague," 1 July 1946, Report No. 208, (S); and AB-43 [Holtsman], Munich, "Election Note from Czechoslovakia," 1 July 1944, Report No. 209, (S), in Schwend, File 201-0206556, DO Records. Information stating that Jewish refugees from Poland were "active for the Russians" came from Schwend as reported by a Dr. Ohrenstein, a Jewish rabbi and leader of refugees in Munich. See SCI/Munich, "Use of Eastern Jewish Refugees for Soviet Intelligence Work," 26 April 1946, Report No. 53, LWX-TS-124, (S), in Schwend, [redacted], DO Records. (S)

<sup>51</sup>SAINT, AMZON to SAINT, "Review of Activity since 10 December 45 to 10 September 46," 17 September 46, L-010-910, enclosing AB-43 [Holtsman], Munich to AB-51 [Hecksher], AMZON, "Review of Activity since 10 December 1945 to 10 September 1946," 10 September 1946, (S), in DO Records, [redacted], Box 1, Folder 14, CIA ARC. (S)

<sup>52</sup>Lt. Sidney H. Lenington, Deputy Chief, X-2/Germany to SAINT, Washington, "Semi-Monthly Reports," 12 December 1945, LMX-005-1130, enclosing Timm to Commanding Officer, SSU/X-2 Germany, "Semi-Monthly Operations Report SCI Munich," 31 October 1945, LMX-005-1130, in WASH-REG-INT-163, RG 226, OSS Records, Entry 108A, Box 275, [no folder listed], NARA. (U)

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southern Germany.<sup>53</sup> He also assisted OSS to remove a Nazi party member from an estate in Bavaria, thereby allowing Spitz's sister-in-law to occupy the residence.<sup>54</sup> (S)

Spitz was also in contact with the INCA project. In September 1945, X-2 obtained the release of seven Munich businessmen, either directors of subsidiary companies of I.G. Farben or prominent city bankers. Capt. Timm stated "these persons are only of potential value if they are returned to their respective businesses. Contacts," Timm noted, "are constantly being made with the functional heads of Military Government detachments to see if the men have been cleared to operate their businesses." OSS expected the INCA agents to provide information on the financial aspects of illegal Nazi activities within Germany. The INCA project, however, was short-lived and the X-2 dropped it the following month when it realized that the operation's "value is still only potential and it has not proven productive to maintain regular contact."<sup>55</sup> (S)

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<sup>53</sup> Lt. Sidney H. Lenington, Deputy Chief, X-2/Germany to SAINT, Washington, "Semi-Monthly Reports," 12 December 1945, LMX-005-1130, enclosing Timm to Commanding Officer, SSU/X-2 Germany, "Semi-Monthly Operations Report SCI Munich," 15 November 1945, LMX-005-1130, in WASH-REG-INT-163, RG 226, OSS Records, Entry 108A, Box 275, [no folder listed], NARA. (U)

<sup>54</sup> Timm to Commanding Officer, X-2/Germany, "Semi-Monthly Operations Report SCI Munich," 15 September 1945, G-TSX-3310, (S), in DO Records, [redacted] Box 3, Folder 21, CIA ARC. (S)

<sup>55</sup> Timm to Commanding Officer, X-2/Germany, "Semi-Monthly Operations Report SCI Munich," 15 September 1945, G-TSX-3310, (S); Timm to Commanding Officer, X-2/Germany, "Semi-Monthly Operations Report SCI Munich," 30 September 1945, G-TSX-3747, (S), both in DO Records, [redacted] Box 3, Folder 21, CIA ARC; Lt. Sidney H. Lenington, Deputy Chief, X-2/Germany to SAINT, Washington, "Semi-Monthly Reports," 12 December 1945, LMX-005-1130, enclosing Timm to Commanding Officer, X-2/Germany, "Semi-Monthly Operations Report SCI Munich," 31 October 1945, LMX-005-1130, in WASH-REG-INT-163, RG 226, OSS Records, Entry 108A, Box 275, [no folder listed], NARA. (S)

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### This Case Should Be Handled Very Carefully (U)

Neither Schwend nor Spitz maintained low profiles in the ruins of postwar Munich, and they soon attracted attention. Spitz became a well-known figure in early postwar society circles in Munich. In a 1947 report, [redacted] commented that he found Spitz's parties to be an excellent way to meet senior American officials assigned to the city's Military Government.<sup>56</sup> In turn, [redacted] helped Spitz to obtain a vehicle and supplies.<sup>57</sup> (S)

It did not take long for Spitz's past to catch up with him. In November 1946, Edwin C. Rae, the chief of the Monuments, Fine Arts, and Archives Section of the Military Government in Bavaria contacted his headquarters to request that US authorities in Italy assist in tracking down looted Dutch art in that country. The Dutch representative at Munich's Central Collecting Point for art recovered from the Nazis had tracked down several pieces of art and rugs that Spitz had sold to Schwend during the war. He wanted the Americans to locate the missing paintings and rugs from Schwend's last known location in northern Italy.<sup>58</sup> (U)

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<sup>56</sup>See "SC Munich Present and Discontinued Contacts." For much of this period, [redacted] was SSU's sole representative in Munich, and he needed to maintain good relations with Military Government and CIC officials. (S)

<sup>57</sup>[redacted], Refugee Control Unit, to Whom It May Concern, "Transportation, Supplies," 15 January 1947, and [redacted] Refugee Control Unit, to Verkehrsdirektion, "Provision of Tires," 29 May 1947, in Spitz, [redacted] DO Records. (S)

<sup>58</sup>Edwin C. Rae, Chief, Monuments, Fine Arts, and Archives Section, Restitution Branch, Economics Division, Office of Military Government for Bavaria, to Office of Military Government (US), Economics Division, Restitution Branch, Monuments, Fine Arts, and Archives Section, "Art Objects of Dutch Origin, now in Italy," 18 November 1946, enclosing R.F.P. de

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In October 1947, another Dutch investigator questioned Spitz about his activities in Holland during the war. According to H.J. Stach, Spitz "became furious" and demanded to know why he was being sought after when he was a Jew who had been in the "underground." Spitz then produced a letter from Capt. Timm that the X-2 chief had written in September 1945. He also told Stach to go see [redacted] as further verification of Spitz's good service. Stach, however, distrusted Spitz and commented, "it is of great importance that this case should be handled very carefully. Spitz is one of the greatest swindlers."<sup>59</sup> (U)

In January 1948, Spitz again fell under suspicion for his role in the looting of art in Europe during the war.<sup>60</sup> A year later in 1949, Spitz again drew high-level attention

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Beaufort, Dutch Representative, to Mr. Rosenbaum, "Restitution of Art Objects in Italy to the Netherlands," 18 November 1946, in RG 260, OMGUS Records, Records of Museum, Fine Arts, and Archives Section, Restitution Research Records, Box 484, [no folder listed], NARA (hereafter cited as RG 260, OMGUS Records, MFAA Section, Restitution Records Research, NARA). (U)

<sup>59</sup>H.J. Stach to Stewart Leonard, "Interrogation of George Spitz, Opitzstr. 4, Munich," 28 October 1947, in RG 260, OMGUS Records, MFAA Section, Records Restitution Branch, Box 484, [no folder listed], NARA. (U)

<sup>60</sup>CIA's German Mission told Headquarters in January 1948 that "G. Spitz presently under investigation. Arts and monuments have turned over to ODI highly incriminating reports by Belgian representative Central Collecting Point Munich and a Netherlands investigation officer on Spitz's wartime activities." The Munich Operations Base added, "George Spitz, at present being investigated by Dutch and Belgian authorities due to his war time art-looting activities, is living in Munich and possibly in touch with Schwend. Spitz is engaged in questionable financial deals and in minor black-market operations and is quite friendly with high-ranking officers of OMGB [Office of Military Government for Bavaria]." Cable, Frankfurt to Washington, 27 January 1948, Frankfurt 628, IN 33751, (S); Cable, Heidelberg to Frankfurt, 27 January 1948, Heidelberg 2840, IN 33727, (S); and Chief of Station, Heidelberg, to EUCOM Liaison Office, "Fritz Schwend," 24 February 1948, MGM-A-365, (S), in Schwend, [redacted], DO Records. See also Cable, Berlin to Munich, Information Heidelberg, 13 January 1948, Berlin 804, (S), and Cable, Munich to Berlin, Information Heidelberg, 13 January 1948, Munich 125, (S), in Spitz, [redacted], DO Records. Berlin asked Munich if it should pressure the Military Government in Berlin to stop this investigation. [redacted] in Munich responded that "see no reason stop Spitz investigation . . . if report refers only wartime activities Spitz in

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because of allegations that he worked with August Lenz, a Munich banker and a former OSS agent with the INCA project, in the Munich black market.<sup>61</sup> In August 1945, Lenz had worked with X-2 to gain the release of the head of the Bavarian Red Cross, a wealthy countess, who had been arrested by CIC after an anonymous denouncement.<sup>62</sup> Lenz also helped to manufacture the false Czech and Polish documents that American intelligence used to evacuate SAILOR, one of its first Soviet defectors.<sup>63</sup> (S)

In the spring of 1947, [redacted] dropped Spitz as an agent because he had become a security risk.<sup>64</sup> A senior CIA officer later concluded in a 1949 cable that "services both Spitz and Lenz minimal and reports praising their services need grain of salt. Both believed [to be] opportunists who made most connections with American officials to further [own] personal positions, which [were] quite precarious [in the] early days occupation since it known that Spitz particularly had served as agent for SD and

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Belgium and Netherlands, let investigation proceed." See also Lt. F.S.E. Baudouin, Belgian Representative, to Herbert S. Leonard, Chief, MFAA Section, "Information Concerning the Spitz Case," 5 August 1948, in RG 260, OMGUS Records, MFAA Section, Restitution Records Research, Box 484, [no folder listed], NARA. (S)

<sup>61</sup>See Cable, Munich to Karlsruhe, Information Berlin, 27 April 1949, Munich 429, (S); Cable, Karlsruhe to Special Operations, 2 May 1949, Karlsruhe 4620, IN 30658, (S); Cable, Berlin to Karlsruhe, Information Munich, 3 May 1949, Berlin 1593, (S); Cable, Berlin to Special Operations, 5 May 1949, Berlin 1600, IN 30910, (S); Cable, Berlin to Special Operations, 5 May 1949, Berlin 1593, IN 30960, (S); all in Spitz, [redacted], DO Records. (S)

<sup>62</sup>Timm to Commanding Officer, X-2/Germany, "Semi-Monthly Operations Report SCI Munich," 30 September 1945, G-TSX-3747, (S), in DO Records, [redacted], Box 3, Folder 21, CIA ARC. (S)

<sup>63</sup>Cable, Berlin to Special Operations, 5 May 1949, Berlin 1600, IN 30960, (S), in Spitz, [redacted], DO Records. (S)

<sup>64</sup>SC, AMZON to FBM, "Progress of Munich Operations," 15 May 1947, HSC/OPS/33, FSRO-1796, (S), in DO Records, [redacted], Box 516, Folder 5, CIA ARC. (S)

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possibly Gestapo. His activities," CIA tersely noted, "Holland and Belgium during war never satisfactorily clarified."<sup>65</sup> (S)

As late as 1959, the US Army and the West German Federal Intelligence Service requested further information about Spitz. By that time, the CIA had lost track of the Austrian Jew who played both sides.<sup>66</sup> (S)

### He Will Always Remember the Americans (U)

George Spitz's troubles, however, occurred after Fritz Schwend left Europe. The leading German member of Operation BERNHARD, however, continued to attract attention. In February 1947, the Central Intelligence Group in Rome reported that CIC and the Italian police had raided a number of buildings in Merano, including Schwend's old headquarters at Schloss Labers, the previous year. According to this late report, provided by CIC in Rome, the joint raid uncovered "large quantities of counterfeit pound

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<sup>65</sup>Cable, Special Operations to Karlsruhe and Munich, 11 May 1949, Washington 3385, OUT 81161, (S), in Spitz,       , DO Records. (S)

<sup>66</sup>See Chief of Base, Munich to Chief, ULS, "American Interest in Banker Georg Spitz, Mauerkircherstrasse 95/0, Munich," 28 October 1959, EGMA-45439, (S), in Spitz,       , DO Records. Spitz's file, opened in 1956, contains no further documents after 1959. Spitz's case was not the only example of a Jew who supported the Nazis in Operation BERNHARD. See Randolf L. Brahm, "The Nazi Collaborator with a Jewish Heart: The Strange Saga of Jaac Van Harten," *Eastern European Quarterly* (Winter 2001, Vol. XXXV, No. 4), pp. 411-434. Van Harten, a German Jew born Jakob Levy, worked for the *Abwehr*, and later with Schwend. Van Harten later moved to Palestine and was regarded a genuine hero of the Jewish resistance movement until his death in 1974. (S)

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notes." The Americans, however, believed that the Germans had a plant still producing counterfeit dollars and pounds as well as US military occupation script.<sup>67</sup> (S)

Schwend's position in Germany diminished, according to [ ] because he had defrauded what appears to have been the Gehlen Organization, the nascent West German intelligence service under Army sponsorship.<sup>68</sup> At this point in early 1947, Schwend went "to visit his family in Italy and thence immigrated to Brazil." [ ] attended Schwend's last party in Munich during which he announced that he would soon take a trip. While the records do not indicate how Schwend escaped from Europe, it is believed that he utilized the underground "rat line" through Italy to South America. He later wrote two letters to [ ] after his departure in which the German said that he "will always remember the Americans for the kind treatment he received."<sup>69</sup> Using the name of Wenceslau Turi, a Yugoslavian agricultural technician, on a Red Cross passport issued in Rome, Schwend and his second wife, given the name of Hedda Turi, arrived in Lima, Peru, after crossing the Bolivian border in April 1947. The new immigrants declared their intention to take up farming in Ica.<sup>70</sup> (S)

In early 1948, Louis (also referred to as Aloys or Vjekoslav) Glavan denounced Schwend in a letter to Gen. Lucius D. Clay, military governor of Germany, through the

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<sup>67</sup>Intelligence Report, External Survey Detachment, Rome, "Counterfeiting Plant in Milan Area," 11 February 1947, PIR-1095, (S), in DO Records, [ ] Box 288, (no folder listed), CIA ARC. (S)

<sup>68</sup>[ ] discusses his work with Schwend and his departure from Europe in his 3 November 1993 interview. At one point, Schwend even provided [ ] with a car when the American no longer had access to an official vehicle. (S)

<sup>69</sup>"SC Munich Present and Discontinued Contacts." (S)


<sup>70</sup>"Suspicious Personalities - Wenceslau Turi and Hedda De Turi," 17 February 1948, TPL-263, (S), in Schwend, [ ] DO Records. (S)



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American ambassador in Rome. Glavan, who had handled Schwend's affairs in Yugoslavia, had been arrested by CIC in July 1945, but, unlike Schwend or Wischmann, he remained in confinement until August 1946. After his release, Glavan visited Schwend in Munich as he made his way to Italy. Born in Italy of Yugoslavian descent, Glavan was "an interesting personality," according to Schwend. The German recalled that Glavan "is capable, intelligent, dependable (though, no doubt, without regard for law or regulations), and [a] daring man open for any proposition." A real professional, "smuggling is Glavan's trade, and he can smuggle things, news or people and *keep his mouth shut* [original italics]." <sup>71</sup> (S)

Between the time of Schwend's meeting with Glavan in August 1946 and early 1948, the two men must have fallen out. In his letter to Clay, which was subsequently referred to the European Command's Office of the Director for Intelligence (ODI) and to the Central Intelligence Agency, Glavan claimed that Schwend and his wife had moved to Lima using false identities and were living from proceeds derived from counterfeit RSHA funds. Furthermore, Glavan fingered George Spitz as the individual who persuaded the Americans not to investigate Schwend for his Nazi activities. He also mentioned that several of Schwend's relatives in Switzerland and Italy supported Schwend in his South American hideout. <sup>72</sup> (S)

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<sup>71</sup>AB-43 [Holtsman], Munich, "Louis Glavan," MSC-283, 16 August 1946, (S), in Schwend,  DO Records. (S)

<sup>72</sup>Cable, Frankfurt to Washington, 27 January 1948, Frankfurt 628, IN 33751, (S); Cable, Heidelberg to Frankfurt, 27 January 1948, Heidelberg 2840, IN 33727, (S); and Chief of Station, Heidelberg, to EUCOM Liaison Office, "Fritz Schwend," 24 February 1948, MGM-A-365, (S), in Schwend,  , DO Records. (S)



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After a preliminary investigation, CIA told the Army that it had no contact with Schwend and that it had nothing to do with his immigration to South America.<sup>73</sup> By February 1948, CIA had cleaned its hands of the German operator and, as it stated in a cable from Headquarters to [redacted], the allegations against Schwend "comes from a person who is probably identical with one of his co-workers in the GIS, who may possibly be denouncing Schwend for personal or business reasons. Thus," CIA concluded, "the reliability of that information should not be taken at its face value until confirmed by other sources."<sup>74</sup> The Army, in turn, handed the case over to the Military Government's Financial Division to investigate Glavan's claims because it related to illegal German funds.<sup>75</sup> (S)

### Continuing Attention (U)

The investigation into Schwend's alleged use of old Nazi counterfeit money appears to have come to a dead end. This did not mean that Schwend had successfully

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<sup>73</sup>Headquarters directed [redacted] to conduct traces of Schwend in Peru and report results to Washington. See Cable, Washington to [redacted] 30 January 1948, Washington 2081, OUT 58113, (S), in Schwend, [redacted], DO Records. (S)

<sup>74</sup>FBM to Chief of Station, [redacted] "Fritz Schwend," 5 February 1948, TPL-W-275, (S), in Schwend, [redacted], DO Records. (S)

<sup>75</sup>Extract, "Progress Report for Jan. 1948," 16 February 1948, MGF-A-727, (S), in Schwend, [redacted], DO Records. In 1960, Glavan reappears in Ecuador where he had reestablished contact with Schwend. See Chief, WHD, to Chiefs [redacted]

[redacted], "Transmittal of Traces on Friedrich Schwend [redacted] and Additional Information on Aloys Glavan [redacted]," 21 March 1960, HEQ-W-2309, (S); and Chief [redacted] to Chief, WHD, and Chiefs [redacted]

[redacted], "Friedrich Schwend [redacted] and Aloys Glavan [redacted]," 15 August 1960, HEQ-A-4030, (S), in Schwend, [redacted], DO Records. (S)

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evaded his past. In 1955, an Italian court sentenced him in absentia to 24 years in prison for having ordered Glavan to kill Theophic Kamber, another Operation BERNHARD agent, who had embezzled some of the counterfeit money. While this conviction was later overturned, Italian officials still sought Schwend's arrest, as did West German authorities under an Interpol warrant.<sup>76</sup> After his arrival in Peru in 1947, Schwend worked for Volkswagen in Lima and also served variously as an informant for several Peruvian intelligence and security services.<sup>77</sup> Throughout the 1960s, Schwend's reputed counterfeiting activities, drug smuggling, and arms dealings throughout Latin America attracted the attention of CIA, the US Secret Service, the British Intelligence Service, and the *Bundesnachrichtendienst*, the West German Federal Intelligence Service.<sup>78</sup> (S)

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<sup>76</sup>Lt. Gen. Marshall S. Carter, DDCI to DD/P, Memorandum Number A-279, 1 August 1963, ER 63-6111, (S), in Schwend, [redacted] [redacted], DO Records. (S)

<sup>77</sup>"Unsigned Memorandum for the Record, Fritz Paul Schwend," 7 February 1963, (S), in Schwend, [redacted] [redacted] DO Records. (S)

<sup>78</sup>In 1963 and again in 1969, the West German Federal Intelligence Service requested that CIA provide name trace results on Schwend. Cable Munich to Washington, 7 February 1963, Munich 4699, IN 63752, (S), and Chief [redacted] [redacted] to Chief, EUR and Chief [redacted] [redacted] "Request for BDC Check and Traces," 14 July 1969, EGMA-72853, (S), in Schwend, [redacted] [redacted] DO Records. For the results of the trace done by CIA's representative to the US Army headquarters in Heidelberg, see Cable, Frankfurt to Washington, 8 April 1963, Heidelberg 4043, IN 13240, (S), in Schwend, [redacted] [redacted], DO Records. This cable provides additional information about West Germany's legal efforts against Schwend. Trace results on Schwend at the Berlin Documents Center are found in the files for both 1963 and 1969. In 1965, the British Intelligence Service told CIA that Schwend had approached the MI 6 [redacted] [redacted] and offered to sell information. The British refused to make any deals despite Schwend's claim to have worked for CIA. The Agency, in turn, replied "Schwend's statement that he had been secretly taken out of Germany by this Agency in 1946 and had subsequently worked for us is quite false." CIA Headquarters told the British representative in Washington, "we have no operational interest in Schwend and believe your Head Office was well advised in recommending that your [redacted] [redacted] have nothing to do with this man." See [redacted] [redacted] MI 6 Representative in Washington, for [redacted] [redacted], MI 6 chief of station, to [redacted] [redacted], "Frederick Schwend," 18 February 1965, CP/4965, (S); [redacted] [redacted] to [redacted] [redacted], "Frederick Schwend," 17 March 1965, 2871, (S); and Chief, WHD to Chief [redacted] [redacted], "Frederick

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Schwend's case even came to the attention of Lt. Gen. Marshall S. Carter, the Deputy Director of Central Intelligence, in August 1963. Carter received visitors from the Secret Service who were anxious to learn more about Schwend's wartime counterfeiting activities and whether any communist countries, such as Czechoslovakia or Cuba, had employed him in the counterfeiting field. Gen. Carter told Richard Helms, the Deputy Director for Plans, "I did not pay too much attention to the details since I did not want to become a case officer for this one!" The DDCI, however, directed Helms to contact the Secret Service and "unless there are overriding reasons to the contrary with which I am not familiar (and on which I would like to be briefed if existent), please cooperate to the fullest extent."<sup>79</sup> (S)

Following up on the Secret Service request, the Agency directed a source in the Peruvian Investigations Police to approach Schwend and ask if he was involved in any counterfeiting activity. Schwend denied that he was involved in any current activity, but he proceeded to tell the Peruvian informant about his wartime role with Operation BERNHARD. Schwend claimed that he did not know where the plates for the British

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Schwend/Contact with SMOTH in [redacted] 26 March 1965, HPLW-3864, (S), in Schwend [redacted]  
[redacted] DO Records. (S)

<sup>79</sup>Lt. Gen. Carter, DDCI to DD/P, Memorandum Number A-279, 1 August 1963, ER 63-6111, (S); unsigned Memorandum, "Meeting with Assistant to Chief, Secret Service," 12 August 1963, (S) and Chief, WHD, to Chief [redacted] [redacted] "Operational - Frederick Schwend," 9 August 1963, HPLW-3114, (S), in Schwend, [redacted] [redacted], DO Records. (S)

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counterfeit pounds were buried, although he suspected that they might be located with a cache of RSHA chief Kaltenbrunner's papers near Toplitzsee in Austria.<sup>80</sup> (S)

As a result of the Secret Service's inquiry, CIA took a closer look at Schwend's activities in Latin America. A West German walk-in to the US Embassy in Algiers in 1966, for example, claimed to be able to provide fresh samples of counterfeit dollars produced by Schwend in exchange for "financial help."<sup>81</sup> After the Peruvians arrested and interrogated Pierre Robert Roesch in April 1966, CIA learned that Roesch made a number of allegations against Schwend, including that he was in contact with an East German named Julius Mader. Shortly afterward, the US Army in West Germany intercepted a letter from Schwend in which he described his work in Italy during the war and denounced his former collaborator, Louis Glavan.<sup>82</sup> (S)

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<sup>80</sup>Cable, [redacted] to Director, 11 October 1963, Lima 4632, IN 37627, (S), and James J. Angleton to Chief, United States Secret Service, "Frederick Schwend," 21 October 1963, (S), in Schwend, [redacted], DO Records. (S)

<sup>81</sup>Cable, [redacted] to Director, Bonn, Info [redacted] 25 November 1966, [redacted] 8023, IN 46069, (S), and Cable, [redacted] to [redacted], Info Bonn, Director, 28 November 1966, [redacted] 0063, IN 47738, (S), in Schwend, [redacted], DO Records. (S)

<sup>82</sup>Chief [redacted] to Chiefs, WH Division, Europe, and Chief [redacted] "Results of [redacted] Interrogations of Pierre Robert Roesch," 24 June 1966, HPLA-8118, (S); and Deputy Director for Plans to FBI, "Federico Schwend," 13 February 1967, CSCI-316/00667-67, (S), in response to John Edgar Hoover to Director, Central Intelligence Agency, "Alois Jecoslav Glavan," 21 December 1966, DBB-67314, (C), enclosing translation of 18 August 1966 letter from Schwend to Julis Mader, a "well-known East German political agitator." Schwend's comments about Glavan drew the attention of the FBI. In his letter, Schwend called Glavan "the biggest swine whom I ever met." Schwend commented that he had helped to get Glavan out of an American prison and enabled him to escape to South America. In return, Glavan stole \$15,000 and a 23-carat diamond from his benefactor. Schwend thought that the Yugoslav, who had many false names, had become a spy in California before moving to Ecuador. Despite Schwend's efforts to have Glavan arrested, he managed to escape. (S)

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## Schwend's Adventures (U)

The Agency's reporting on Schwend tails off in the early 1970s just when the press began to publicize the presence of former Nazis in South America. According to one book, Schwend collaborated with Klaus Barbie in trafficking arms in Spain, Chile, and Paraguay. Both men manipulated the intelligence and security services throughout Latin America and received protection from various countries.<sup>83</sup> As early as 1966, CIA learned from an interrogation report that Schwend was in contact with Klaus Altman, a name used by Barbie. That same year, CIA in Peru described Schwend as a "completely unscrupulous person who thrives on intrigue and illicit schemes. Has bought protection for himself in Peru by establishing high level political contacts and by peddling info to local security service."<sup>84</sup> (S)

During the investigation of a murder of a wealthy Peruvian businessman in early 1972, the Peruvian Government took Schwend into custody. Papers found in his possession revealed the extent to which Schwend had blackmailed Peruvian officials, traded national secrets, and broken currency laws. While the Peruvian judge initially released Schwend, the ensuing publicity exposed Barbie's hideout. This marked the

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<sup>83</sup>Linklater et al, *The Nazi Legacy*, pp. 235-265. (U)

<sup>84</sup>Cable, C to C, Info Bonn, Director, 28 November 1966, C 0063, IN 47738, (S), in Schwend, C, DO Records. (S)

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beginning of the long trail leading to Barbie's eventual expulsion from Bolivia and return to France to face justice for his World War II war crimes.<sup>85</sup> (U)

Schwend's life unraveled following his arrest in 1972. The Peruvian Government tried Schwend, and he was found guilty of smuggling \$150,000 out of the country; he was given a two-year prison sentence.<sup>86</sup> In 1976, Peru deported Schwend to West Germany, where he landed in jail once again when he could not pay a \$21 hotel bill.<sup>87</sup> The West German and Italian Governments, however, failed to pursue the wartime murder charge, leaving Schwend a free, but homeless, man. He returned to Peru only to die in 1980.<sup>88</sup> (U)

### Wrapped Up in the Cold War (U)

Schwend's death, by no means, brought the riddle of Operation BERNHARD to a close. In fact, the German counterfeiting plot became an opening drama at the dawn of

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<sup>85</sup>Ibid. In late 1972, the *New York Times*, citing a London *Daily Express* series on Martin Bormann, reported that South America provided refuge for four major Nazi war criminals: Schwend, Klaus Barbie, Josef Mengele, and Walter Rauff. Three years later, the paper noted, "thirty years have passed since the war. The scores of wanted Nazis who fled to South America, gambling that they could find refuge and anonymity in the widespread German communities here, are virtually immune to the postwar European courts and Jewish agencies that once vowed they would never forget." See "Paper Identifies 4 Nazis Said to be in South America," *New York Times*, 1 December 1972, p. 11 and Jonathan Kandell, "Nazis Safer in South America Today," *New York Times*, 18 May 1975, pp. 1 and 26. (U)

...<sup>86</sup>Reuters, "Nazi in Bolivia Called Chief of Peruvian Currency Ring," *New York Times*, 7 December 1973, p. 7. In addition to Schwend, the Peruvian prosecutor also indicted Klaus Barbie and four other individuals. (U)

<sup>87</sup>Reuters, "Nazi Forger's Bad Bills," *The Washington Post*, 14 July 1976. (U)

<sup>88</sup>"Nazi Plotted to Cripple British, American Economies," *Los Angeles Times*, 7 April 1980, p. 22. (U)

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
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the Cold War. Russian troops in Austria, for example, also fished British pound notes from the Enns River and, consequently, Soviet headquarters quickly learned about the mysterious appearance of large sums of money.<sup>89</sup> Like the race for German scientists, the wartime Allies quickly scrambled to procure many of Germany's skilled counterfeiters. In the spring of 1947, Army CIC in Berlin reported that the Soviets had kidnapped Franz Zemlicka, a German engraver and draftsman, who specialized in Soviet documentation for the *Abwehr*. The Soviets failed in their attempt to apprehend Heinz Eichner, who forged passports for the *Abwehr* and RSHA *Amt VI* during the war. CIC brought Eichner to the American sector and eventually planned to move him to greater safety in the American occupation zone of Germany. The Central Intelligence Group, when it learned of the kidnap attempt on Eichner, commented, "examples of Eichner's production have come to the attention of some members of this organization; they were favorably impressed with Eichner's competency."<sup>90</sup> (S)

The Russians were not the only country interested in the abilities of the German counterfeiters. As the Americans drew closer in late April 1945, BERNHARD Kruger, the mastermind behind the German operation, left his charges. He took with him several thousand British pound notes and vanished. Not until November 1946 did the British catch up with him, and he was confined for the next two years. In 1949, the British turned him over to the French, who promptly tried to recruit the former SS officer to start

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<sup>89</sup>Report, Chief Inspector Rudkin, 26 August 1945, in McNally Report, RG 260, OMGUS Records, NARA. (U)

<sup>90</sup>"MVD Interest in Former *Abwehr* Forgers," 9 May 1947, MGB-3300, (S), in:    
Box 263, [no folder listed], CIA ARC. (S)

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a new counterfeiting operation for the French intelligence service. Kruger refused and after several more months of confinement, he was allowed to return home. Kruger lived a quiet existence into the 1980s and downplayed his wartime infamy.<sup>91</sup> (U)

The Secret Service also wanted to locate Solly Smolianoff because it was concerned that the Polish Jew could have run off with the plates to the America counterfeit bills. Like Kruger, Smolianoff had disappeared in 1945. Nearly two years later, the Treasury Department got a break when the American Consulate in Bern learned about a Russian professor with counterfeit money. The Swiss police arrested the Russian who, after lengthy questioning, revealed that he had been in touch with Smolianoff. It was also learned that Smolianoff then lived in Rome, waiting for a visa for South America. (U)

The Army's Criminal Investigations Division (CID) picked up Smolianoff in Rome and questioned him about his activities. He provided a full account, although he had spent most of his adult life in prison or in concentration camps. Newly married, Smolianoff announced that he wanted to abandon his counterfeiting ways and start anew in Uruguay. Released from custody, Smolianoff dropped from sight after he left for South America in 1948.<sup>92</sup> (U)

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<sup>91</sup>Bloom, *The Brotherhood of Money*, pp. 88-89. (U)

<sup>92</sup>Bloom, *Money of Their Own*, pp. 264-266; see also A.E. Whitaker, Agent in Charge to James J. Maloney, Chief, US Secret Service, "Eugen Ivan Zotow, Sali Smilianoff, et al; Counterfeit \$100 FR (1103)," 24 September 1947, sanitized report released by the US Secret Service. (U)



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## An Enduring Mystery (U)

While the search of Toplitzsee in 2000 appears to have quieted speculation that the lake was the "garbage can of the Third Reich," the lure of hidden Nazi treasures is still strong. Questions of collusion between American intelligence and the architects of Operation BERNHARD are bound to come to the forefront. (U)

In 1946, the Strategic Services Unit wrote a classified history of OSS during World War II. The RSHA Financial Operation was still fresh in the minds of the compilers of the *OSS War Report*. X-2's role in Germany and Austria was hailed as a great success story for OSS because of what it revealed about the German counterfeiting operations and the recovery of large sums of money and other valuables.<sup>93</sup> Yet, for all the positive attributes of the RSHA Financial Operation, it marked a growing link between American intelligence and unscrupulous Nazi characters, including Fritz Schwend and George Spitz.<sup>94</sup> (S)

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<sup>93</sup>Strategic Services Unit, History Project, *War Report of the OSS (Office of Strategic Services)*, vol. II, *The Overseas Target*. New intro. by Kermit Roosevelt (New York: Walker and Company, 1976), pp. 353-354. (U)

<sup>94</sup>In turn, American intelligence may have been corrupted as an aftermath of Operation BERNHARD. An unconfirmed statement indicates that at least one OSS officer may have materially gained from his work on the RSHA Financial Operation. In 1969, Army trace results reported that Schwend ten years earlier had written "various American authorities charging that during confinement by CIC in 1945 he was robbed of a considerable amount of money and that much of his immediate personal property was confiscated and never returned." The Army, given the late date of Schwend's charges, was unable to investigate and found nothing in its files to substantiate them. See Headquarters Liaison Team, US Army Intelligence Center, to Deputy Director for Plans, "Schwend, Frederico (Fritz)," 19 August 1969, (C), in Schwend,       

       DO Records. (S)

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